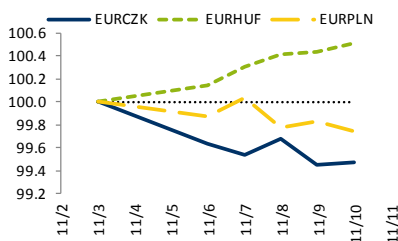




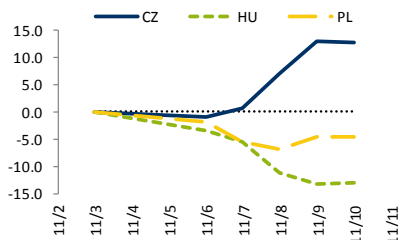
Friday, 10 November 2017

## Forex markets (index)



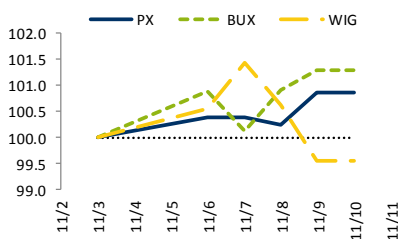
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.54	25.53	0.02
EURHUF	312.3	312.1	0.07
EURPLN	4.235	4.238	-0.08

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.724	1.727	-0.3
HUGB 10Y	2.26	2.25	0.1
PLGB 10Y	3.41	3.41	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1060.5	1060.5	0.00
BUX	40274	40274	0.00
WIG	63924	63924	0.00

## Regional insights

## A drop in Hungary's inflation plays into NBH's cards

The Hungarian consumer price index dropped from 2.5% Y/Y in September to 2.2% Y/Y in October, slightly below the market expectation of 2.3% YoY. The main driver of the moderation was the fuel price due to base effect (there was a substantial rise last year). The seasonality of tradeable goods (clothes) was also different compared to next year (the price increase concentrated to October in 2016, while it was more balanced between September and October in this year). Finally there were product groups (healthcare services, sporting goods and toys) where there were a substantial price increase last year, but nothing in this year. The latter two reasons caused that the core inflation moderated from 2.9% in September YoY to 2.7% YoY in October.

**Looking ahead CPI may remain in the range of 2% Y/Y and 2.5% Y/Y till April 2018**, which might be followed by some acceleration close to 3% at end-2Q18 and above 3% YoY in 4Q18. This inflation orbit support the NBH to maintain its loose monetary policy till the election will be held in April-May 2018. It is also important to mention that the regulated price were kept at extremely low level since 2013, and so there is a risk that after the election some adjustment of this price group is needed, which might push up the inflation at the end of 2018 and in 2019 or it may put more pressure on the state budget to compensate the loss of some public owned companies.

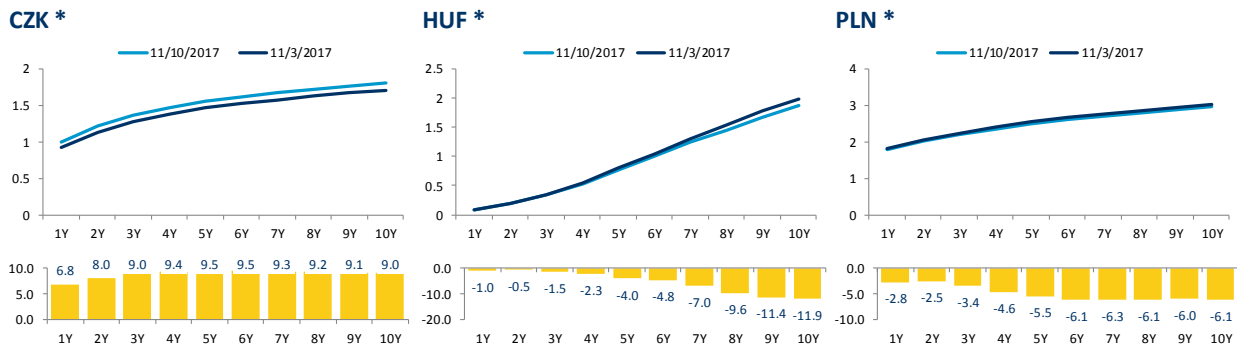
**As a conclusion the price development won't force the NBH to change to current monetary policy if EUR/HUF remains in the range of 308 and 315. In case the HUF starts to strengthen again to or below 305, some monetary easing may come. Touching the O/N deposit rate, increasing further the cross currency swap amount on the tenders. Without this tenders the HUF liquidity would be balanced so the internal bank interest rate would move to the base rate level.**

## The Czech inflation hits almost 3%, it is the peak?

The Czech year-on-year headline inflation climbed to its highest level for the last five years as it reached 2.9% in October. Even in this case, inflation in the Czech Republic is mainly the result of rising food prices. Over the past year, we have been paying almost 8% more on average for food, accounting for about half of inflation. The second most prominent inflationary factor is the rising cost of housing. The boom in real estate is not only reflected in the record growth of the prices of new and old flats but also market rents are increasing over time. More expensive electricity, which is still awaiting faster growth, is gradually being added to this. The period of cheap fuel has also ended, so the last three months have seen inflation coming from fuel as well.

**In our opinion, headline inflation is peaking and will gradually decline over the next few months. At the end of the year, it will probably fall to 2.5% and will still be above the CNB's target. Meanwhile, the October inflation was the first successful test of its latest forecast for the CNB. It seems that another rate hike is not far away, however, whether it will be in December, will depend on the strength of the koruna and, above all, the first estimate of GDP growth (released next week) and wages for the third quarter.**

## Interest-rate Swap Curves



\* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

## Calendar

Country	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
				m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	0:00	Earnings OTP Bank	HUF 3Q/2017								
PL	0:00	Earnings Eurocash	PLN 3Q/2017								
HU	17:00	Review rating - Fitch	BBB- 2nd revision								

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